



# Financial Overview and Model

Investor Day – June 2, 2016

**David White**

Chief Financial Officer

# Forward Looking Statement

During this presentation and corresponding commentary we may make forward-looking statements, including statements regarding Align's strategy for future growth, plans related to global expansion of operational presence, our expectations regarding our ability to develop and commercialize new products, planned geographic expansion and anticipated impact on our growth, our expectations related to sales force coverage on, among other things, customer adoption, as well as statements related to Align's business outlook for 2016 and beyond. Any such forward-looking statements contained in this presentation and corresponding commentary are based upon information available to Align as of the date hereof. These forward-looking statements are only predictions and are subject to risks, uncertainties and assumptions that are difficult to predict. As a result, actual results may differ materially and adversely from those expressed in any forward-looking statement. Factors that may cause such a difference include, but are not limited to, the factors that are discussed in more detail in Align Technology's Forms 10-K and 10-Q, as well as in other reports and documents filed from time to time with the Securities and Exchange Commission. Align undertakes no obligation to revise or update publicly any forward-looking statements for any reason.

# Agenda

- Historical review
- Investment allocation
  - Examples
  - Priorities
  - Return on invested capital
- Long-term business model
- Summary

# Summary of GAAP Financial Results

## Revenue



2013 2015  
\$660M \$845M

## EPS



2013 2015  
\$0.78 \$1.77

## Cash<sup>(1)</sup>



2013 2015  
\$472M \$679M

## Market Cap<sup>(2)</sup>



2013 2015  
\$2.2B \$5.3B

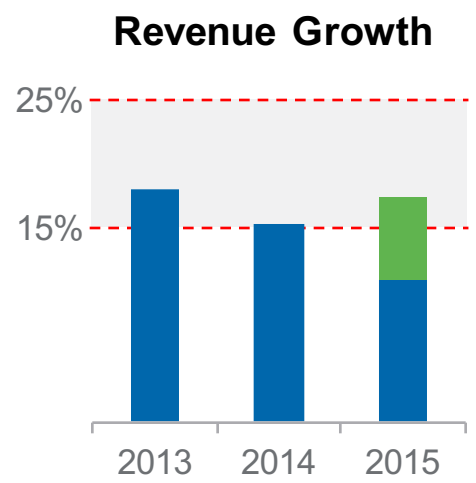
■ 2013 ■ 2015

(1) Includes cash, cash equivalents, short and long-term investments.

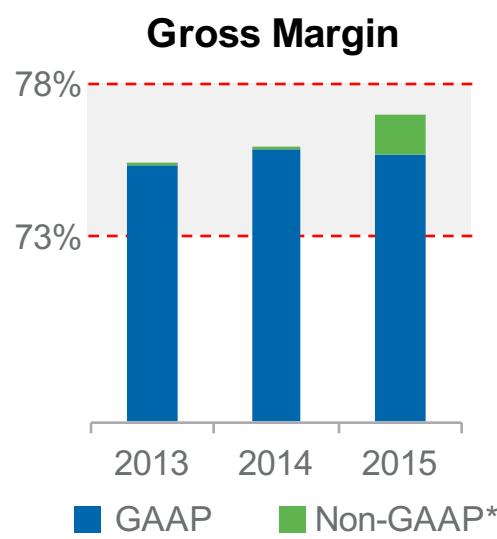
(2) As of December 31, 2012 and 2015

# Actual Results vs. Long-term Model

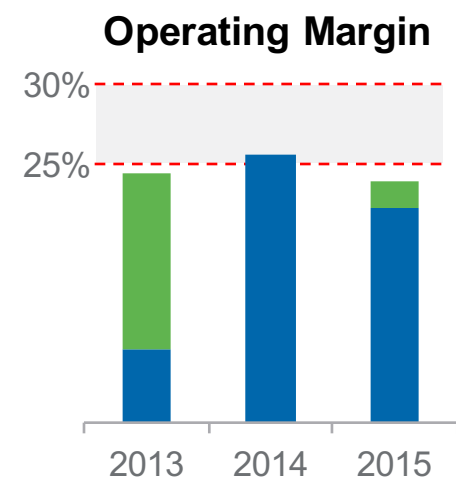
## 2013 to 2015



Market expansion and share gains driving growth



Invisalign scale driving Gross Margins



Improving, heavy investments limiting Business Model performance

\* 2013 Non-GAAP excludes impairment charges. 2015 non-GAAP excludes Additional Aligner policy impact and assumes foreign exchange at 2014 constant currency. A reconciliation of GAAP to Non-GAAP can be found at <http://investor.aligntech.com> under Financial Information.

# Driving Shareholder Value

## Top-line Growth

Expand market share  
Disciplined geo. expansion

## Bottom-line Growth

Balanced growth vs. earnings  
Sustained cost discipline

## Organic Investment

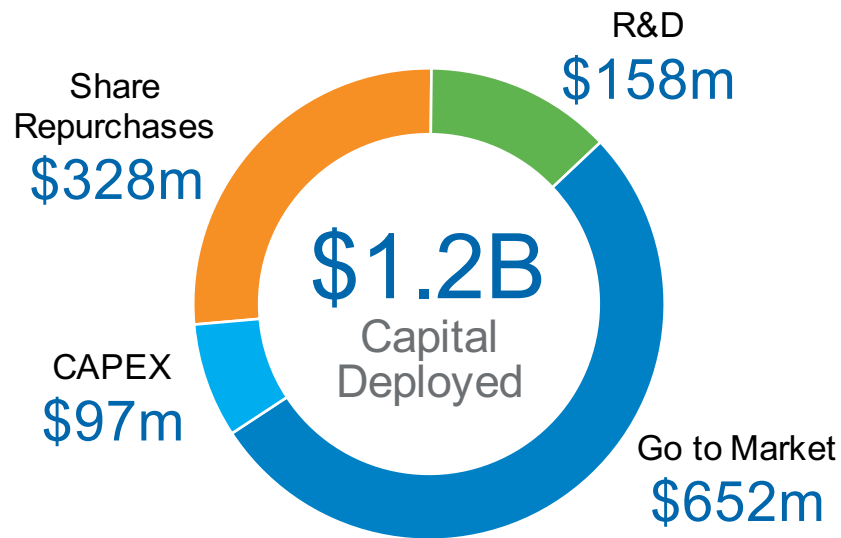
Clear aligner innovation  
Territory coverage  
Create consumer “pull”

## Capital Deployment

Asset “light” business model  
Free cash flow generation  
Return excess cash

# Investment Allocation

*Cumulative 3 Years (2013-2015)*



## Principles:

- Invest in business – 1<sup>st</sup> priority
- Growth balanced with earnings
  - 66% P&L investments
  - 34% B/S investments
- Return surplus cash to shareholders

\* Share Repurchases includes cash paid to retire shares otherwise issuable under employee stock awards. Go to Market defined as Selling and Marketing expenses..

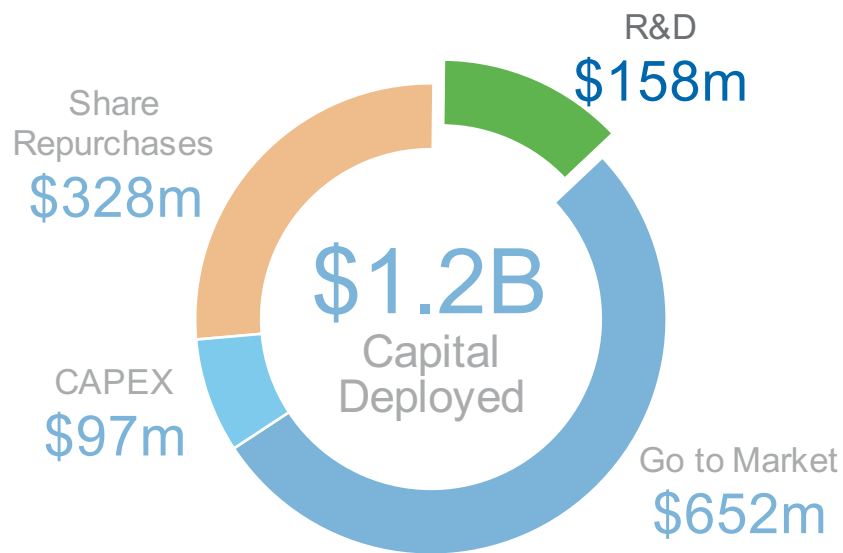
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# Investment Allocation

Cumulative 3 Years (2013-2015)



## R&D investments:

- Innovations increase Invisalign applicability and opportunity
  - Appliance innovation
  - Treatment planning innovation
- Better clinical results increase doctor confidence
- 6.5 - 7.5% of revenue

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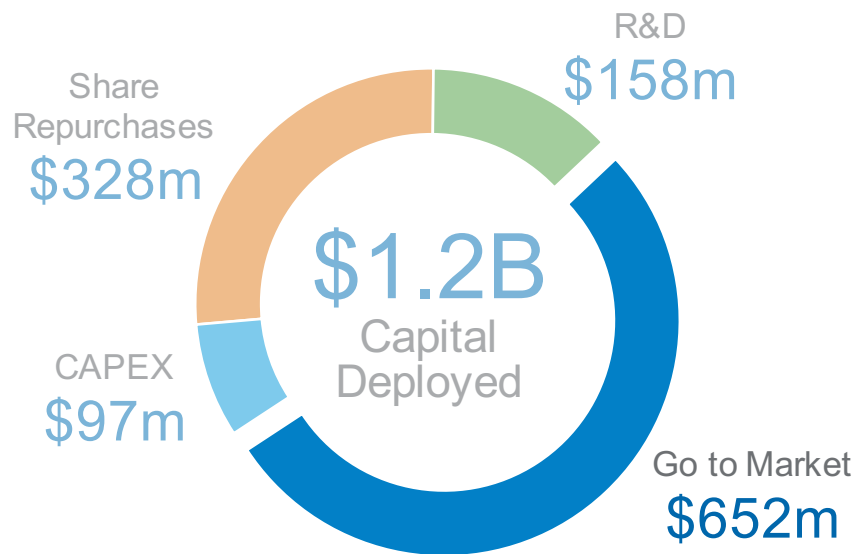


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# Investment Allocation

## Cumulative 3 Years (2013-2015)



### Go to market investments:

- Territory coverage investments drives new doctors & utilization
- Consumer advertising drives demand “pull”
- Geographic expansion expands served market
- 27 - 31% of revenue

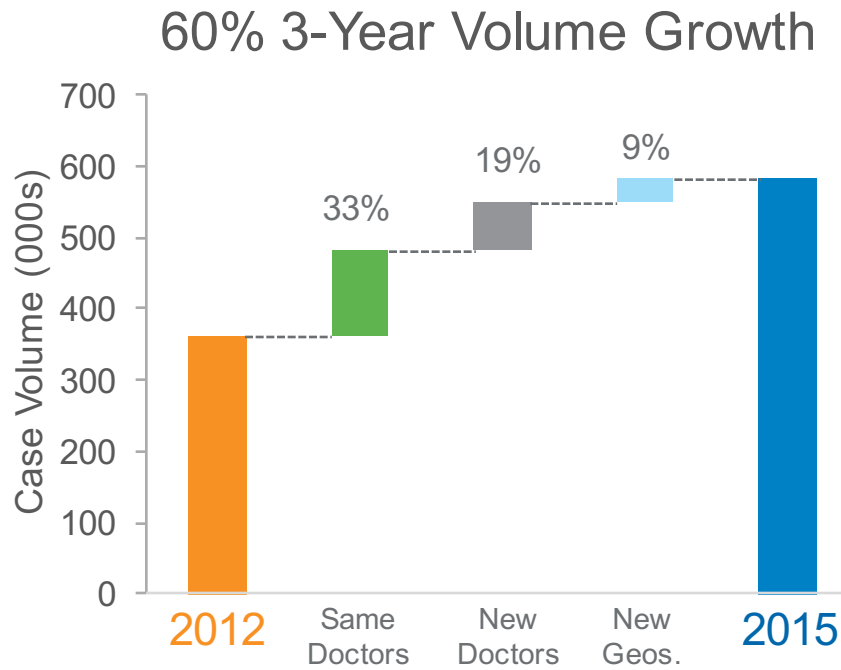
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# Return on Investments



Growth Driver*	Same Doctors	New Doctors	New Geos.
R&D	✓ +	✓	
Consumer	✓	✓ -	
Sales/Mktg.	✓ -	✓ +	✓
Payback (yrs.)	≤1	>2	1-2

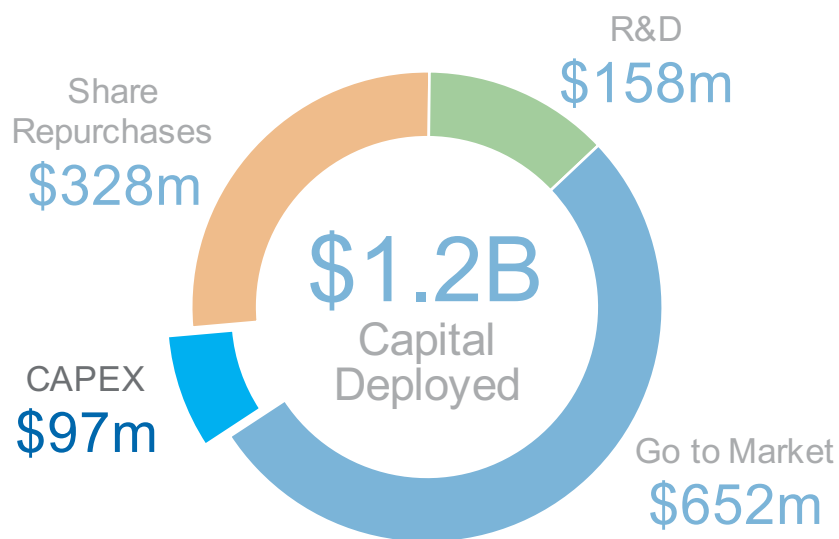
**>1.5x**  
Return on Incremental  
Growth Driver Investments

\* ✓ + higher investment focus. ✓ "normal" investment profile. ✓ - investment leverages base spend.  
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# Investment Allocation

Cumulative 3 Years (2013-2015)



## Capital expenditures:

- CAPEX light business model
- Primarily factory capacity driven
- ERP capital 2015-2016
- LT average 3-4% of revenue

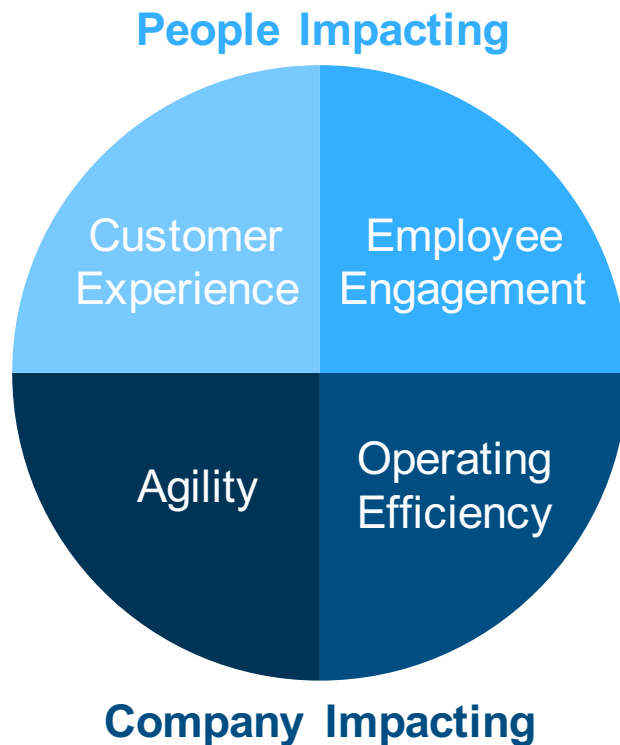
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# The ROI Case for ERP Transformation



## Improved Customer Loyalty:

- Improved on-line experience
- Enables flexible offerings

## Improved Work Life:

- Less KTLO activities
- More strategic value-added work and business impact

## Faster Time-to-Market:

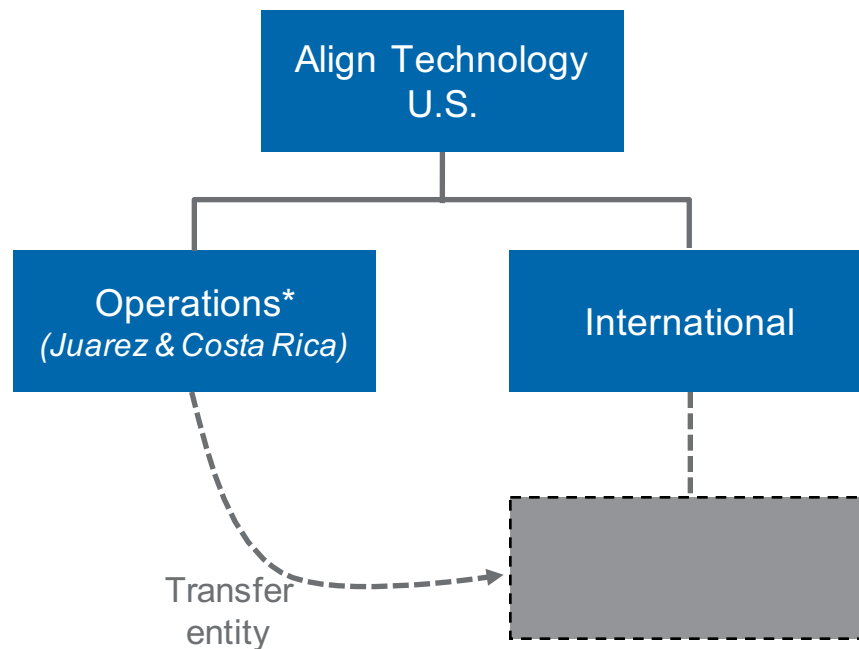
- Product launch
- Pricing and promotions

## Scalable Growth:

- “Copy exact” processes
- Workforce optimization
- Corporate transformation

# Corporate Structure Transformation

## Case Study

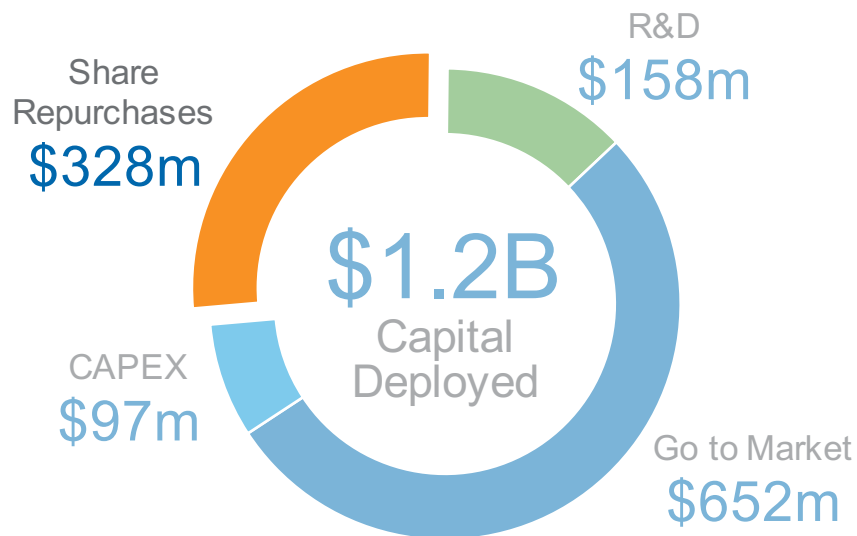


- Streamlined intercompany
  - Eliminates >50% of intercompany relationships
  - Improved cash/FX management
- Optimized cash and tax efficiencies
  - Operations CAPEX to be funded from Int'l cash flow
  - *Incremental* return of cash to U.S.
    - >\$100m in 2016
    - >\$600m over 5-10 years
  - Short-term tax rate modestly down, lower long-term tax rate

\* Juarez, Mexico Aligner Fabrication and Costa Rica Treatment Planning.  
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# Investment Allocation

## Cumulative 3 Years (2013-2015)



### Share Repurchases:

- 6.3m shares, 8% of outstanding
- \$33m used to reduce employee stock award dilution
- New \$300m authorization
- New \$100m initiated in 2016

\* Share Repurchases includes cash paid to retire shares otherwise issuable under employee stock awards. Go to Market defined as Selling and Marketing expenses..

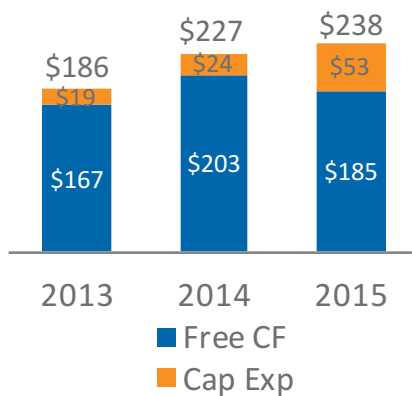
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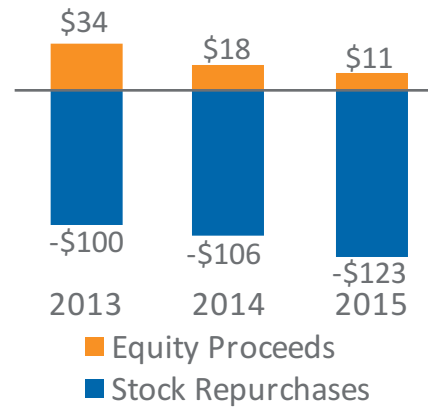
# Cash Flow and Cash Balances

### Cash Flow from Operations (\$M)



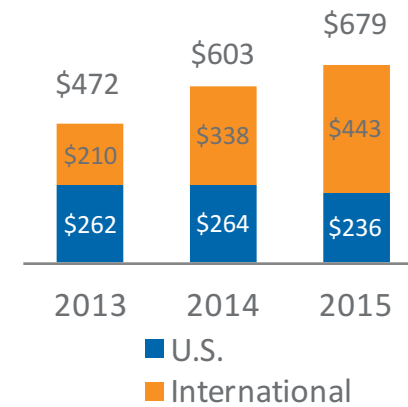
FCF well within LT Model of 20-25% of Revenue

### Cash Flow from Financing (\$M)<sup>1</sup>



Consistent return of capital to shareholders

### Cash Balances (\$M)<sup>2</sup>



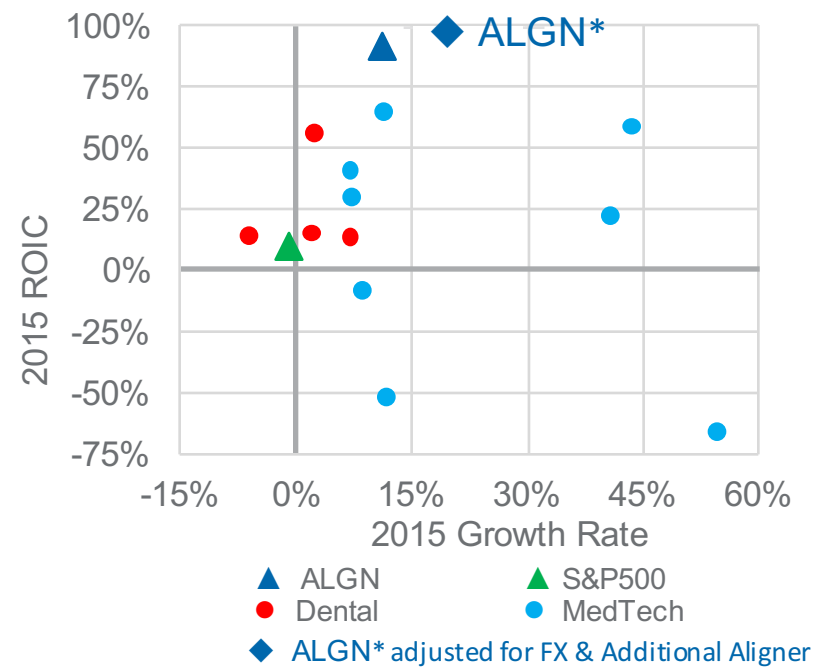
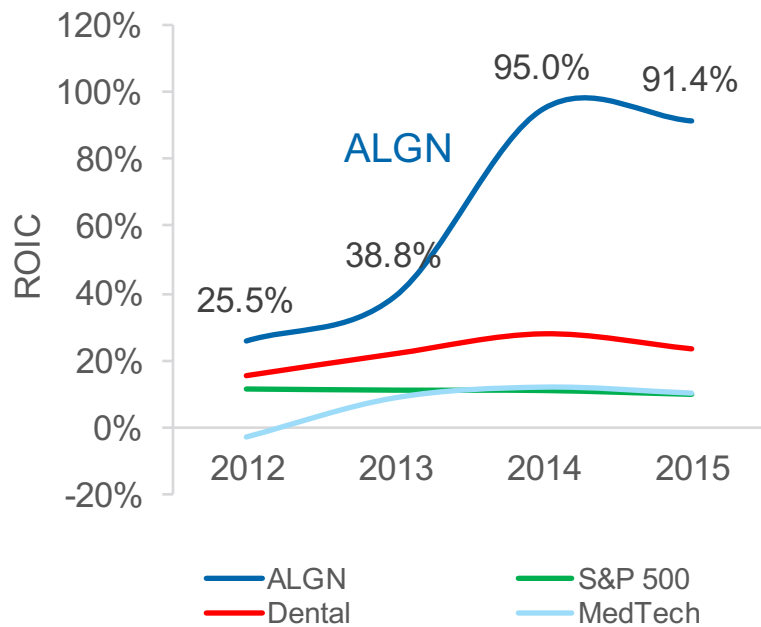
Sustainable U.S. cash to return to shareholders

(1) Stock Repurchases includes cash paid to retire shares otherwise issuable under employee stock awards.

(2) Cash Balance includes cash, cash equivalents and marketable securities.

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# High Growth with Market Leading ROIC...



Source: Morgan Stanley and Capital IQ. Calendar year data.

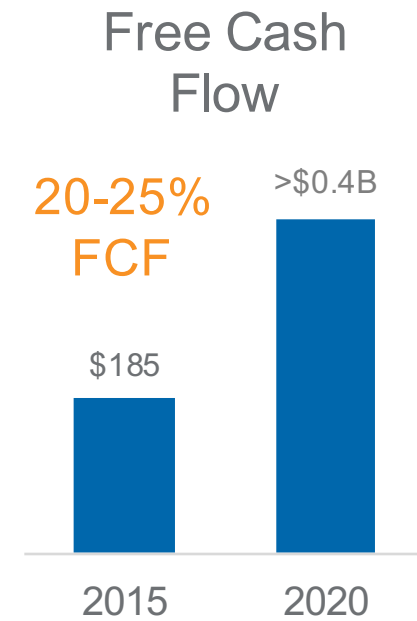
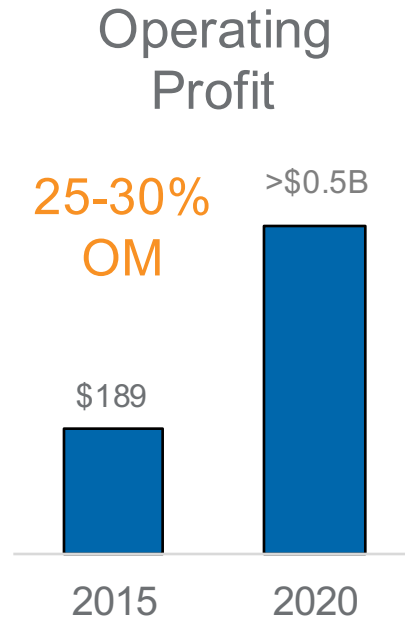
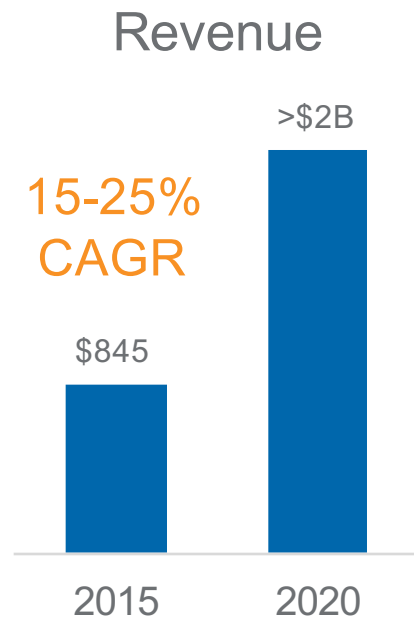
\* ROIC on a GAAP basis, excluding cash and investments. Revenue growth figures exclude acquisitions.

\* Dental= XRAY+SIRO (proforma), STMN, PDCO, HSIC. MedTech=ISRG, INGN, ABMD, DXCM, RMD, WMGI, PODD. S&P500 at 35% tax rate.

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# Longer-term Outlook



Investments → Growth → Scale Efficiencies → Operating Margin

## Summary



Investing aggressively and prudently to drive top-line growth while maintaining strong earnings



Strong earnings + asset-light model = leading ROIC



Continued commitment to returning excess cash



Committed to long-term business model

# GAAP to Non-GAAP Reconciliation

(\$ in mil, except EPS)		2013	2014	2015
Revenue	GAAP Revenue	\$ 660.2	\$ 761.7	\$ 845.5
	<i>YoY Growth Rate</i>		15%	11%
	<i>2015 vs. 2013 Growth Rate</i>			1.3X
	FX @ 2014 constant currency			34.5
	Additional Aligner policy impact			14.0
	Non-GAAP Revenue	\$ 660.2	\$ 761.7	\$ 894.0
	<i>YoY Growth Rate</i>		15%	17%
<i>2015 vs. 2013 Growth Rate</i>			1.4X	

Gross Profit	GAAP Gross Profit	\$ 498.1	\$ 578.4	\$ 640.1
	<i>GAAP Gross Margin %</i>	75.4%	75.9%	75.7%
	FX @ 2014 constant currency			34.5
	Additional Aligner policy impact			14.0
	Non-GAAP Gross Profit	\$ 498.1	\$ 578.4	\$ 688.6
	<i>Non-GAAP Gross Margin %</i>	75.4%	75.9%	77.0%

(\$ in mil, except EPS)		2013	2014	2015
Operating Profit	GAAP Operating Profit	\$ 94.2	\$ 193.6	\$ 188.6
	<i>GAAP Operating Margin %</i>	14.3%	25.4%	22.3%
	Impairment of goodwill	40.7		
	Impairment of long-lived assets	26.3		
	FX @ 2014 constant currency			11.2
	Additional Aligner policy impact			14.0
	Non-GAAP Operating Profit	\$ 161.2	\$ 193.6	\$ 213.8
	<i>Non-GAAP Operating Margin %</i>	24.4%	25.4%	23.9%

Diluted EPS	GAAP Net Profit	\$ 64.3	\$ 145.8	\$ 144.0
	<i>GAAP Diluted EPS</i>	\$ 0.78	\$ 1.77	\$ 1.77
	<i>2015 vs. 2013 Growth Rate</i>			2.3X
	Impairment of goodwill	40.7		
	Impairment of long-lived assets	26.3		
	FX @ 2014 constant currency			11.2
	FX Gain @ 2014 constant currency			4.0
	Additional Aligner policy impact			14.0
	Income tax-related adjustments	(3.8)		(6.6)
	Non-GAAP Net Profit	\$ 128.3	\$ 147.6	\$ 168.4
<i>Non-GAAP Diluted EPS</i>	\$ 1.54	\$ 1.77	\$ 2.05	
<i>2015 vs. 2013 Growth Rate</i>			1.3X	



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